

FG/10/76

CONFIDENTIALECONOMIC RECONSTRUCTION GROUP

Minutes of the meeting held at 10.00 a.m.
on Thursday, 17th June, 1976 at the
House of Commons.

Present: Sir Geoffrey Howe, MP (Chairman)
Mr. Howell, MP
Mr. Nott, MP
Mr. Prior, MP

Mr. Ridley
Mr. Cardona (Secretaries)

Apologies: Mr. Biffen, MP
Mr. Gilmour, MP
Sir Keith Joseph, MP
Mrs. Oppenheim, MP
Mr. Griffiths

A. Mr. Ridley's paper on Reviving the Private Sector

1. Corporate taxation

It was agreed that there was little scope for giving more tax allowances to industry; but one useful measure would be to eliminate the deferred tax liabilities arising from the Government's tax concessions on stock appreciation.

Ideally corporate taxation should be much simpler, with no special allowances or reliefs, and probably a much lower general rate.

Altering the level of corporate tax was the easiest way to relieve corporate liquidity in the short-term, but was no solution to the problem of the long-term decline in profits. Higher liquidity - as opposed to profitability - would, on past trends, be paid out in higher wages.

2. Corporate liquidity

It was agreed that institutional reforms of interest rates, the banking system, equity banks, Finance for Industry, etc., were simply palliatives which would not solve the fundamental problem, which was profitability.

Improved control of borrowing by local authorities and nationalised industries would ease the 'crowding-out' of private industry from the capital markets.

3. Saving

Saving (or 'capital-formation') was essential if personal standards of living were to be temporarily reduced in favour of industry. The proposals of the policy group on wider ownership of assets should be referred to at this point in Mr. Ridley's paper.

It was agreed that three things could be done to encourage saving:-

- (i) the rules governing unit trusts, pension funds etc, should be easier to operate within;
- (ii) dividend controls should be abolished;
- (iii) the investment income surcharge threshold should be raised.

4. Exchange-rates

Floating made exporting difficult for some companies with long-term projects. The problems caused by floating exchange rates needed further investigation.

5. Managers

Whatever could be done to teach managers about inflation - accounting should be done.

6. Company law

More research was needed to establish the case for allowing smaller groups of shareholders to call extraordinary meetings, as in the USA.

B. Mr. Ridley's paper on Secrecy

The paper received general endorsement. Giving people - and especially the trade unions - more information was essential if unpleasant decisions which required wide assent were to be taken.

The technical quality of Treasury forecasting would be improved if there were greater intellectual freedom and contact with the outside world.

C. The Council of Wise Men

The proposal of a council of advisers was superficially attractive, but:-

- (i) it had been tried before, and
- (ii) it was not at all clear who could be appointed to the council. Furthermore it was better to build on existing institutions as far as possible.

D. Tax credits

It was agreed that tax credits should continue to be the Party's long-term goal. Meanwhile there were three essential points to be borne in mind:

- (i) employers should tax benefits (when this was possible);
- (ii) a reduced rate band of income tax would make implementation of tax credits cheaper;
- (iii) child credits should be introduced as soon as possible.